
INDEPENDENT AUDITOR'S REPORT ON THE STATE OF WISCONSIN'S COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the general purpose financial statements of the State of Wisconsin as of and for the year ended June 30, 1998, and have issued our report thereon dated December 18, 1998. The general purpose financial statements and related auditor's opinion have been included in the State of Wisconsin's Comprehensive Annual Financial Report for 1998. We did not audit the financial statements of the Environmental Improvement Fund, which represents 31 percent of the assets and 2 percent of the operating revenues of the enterprise funds, nor did we audit the financial statements of the Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, which represent 88 percent of the assets and 25 percent of the revenues and operating transfers of the debt service funds, 42 percent of the assets of the capital projects funds, and 20 percent of the liabilities of the general long-term debt account group. In addition, we did not audit the financial statements of the Wisconsin Housing and Economic Development Authority, the Wisconsin Health Care Liability Insurance Plan, and the University of Wisconsin Hospitals and Clinics Authority, which represent 100 percent of the financial activity of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the State's general purpose financial statements, insofar as it relates to the amounts included for those entities, is based solely upon the reports of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, Wisconsin Health Care Liability Insurance Plan, and University of Wisconsin Hospitals and Clinics Authority were not audited in accordance with *Government Auditing Standards*.

Governmental Accounting Standards Board (GASB) Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosures of certain matters regarding the year 2000 issue. The State of Wisconsin has included such disclosures in Note 23 to the general purpose financial statements. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, in our judgment, it is not possible to obtain sufficient evidence to support the State of Wisconsin's disclosures with respect to the year 2000 issue in Note 23. Further, we do not provide assurance that the State of Wisconsin is or will be year 2000 ready, that the State of Wisconsin's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State of Wisconsin does business will be year 2000 ready.

Compliance

As part of obtaining reasonable assurance about whether the State of Wisconsin's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of several state agencies in separate letters.

Internal Control Over Financial Reporting

In planning and performing our audit of the general purpose financial statements of the State of Wisconsin for the year ended June 30, 1998, we considered the State's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in Section II of the Schedule of Findings and Questioned Costs as findings WI-98-45 through WI-98-58.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider findings WI-98-51 through WI-98-54 to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to the management of several state agencies in separate letters.

This report is intended for the information of the management of Wisconsin state agencies, the Wisconsin Legislature's Joint Legislative Audit Committee, and federal awarding agencies and pass-through entities. However, this report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited.

LEGISLATIVE AUDIT BUREAU

December 18, 1998 by

Bryan Naab
Audit Director

INDEPENDENT AUDITOR'S REPORT ON THE STATE OF WISCONSIN'S COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Compliance

We have audited the State of Wisconsin's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 1998. The State of Wisconsin's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs, as well as in Note 2 of the accompanying Notes to the State of Wisconsin Schedule of Expenditures of Federal Awards for the year ended June 30, 1998. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of their major federal programs is the responsibility of the management of Wisconsin state agencies. Our responsibility is to express an opinion on the State of Wisconsin's compliance based on our audit.

The federal grants administered by the Wisconsin Supreme Court were not included in the scope of our audit of federal awards because its grants are audited separately in accordance with OMB Circular A-133, if required. In addition, we did not include in our audit scope the federal awards administered by the Wisconsin Housing and Economic Development Authority. An audit of that entity was performed by other auditors.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Wisconsin's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Wisconsin's compliance with those requirements.

In our opinion, the State of Wisconsin complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, that

are required to be reported in accordance with OMB Circular A-133 and that are described in the accompanying agency report narratives and in Section III of the Schedule of Findings and Questioned Costs as findings WI-98-1 through 3, 5 through 8, 11, 13, 17 through 20, 22 through 23, 25 through 26, 28 through 37, 39, and 41 through 44.

Internal Control Over Compliance

The management of Wisconsin state agencies is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Wisconsin's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Wisconsin's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying agency report narratives and in Section III of the Schedule of Findings and Questioned Costs as findings WI-98-1 through 5, 8 through 16, 18 through 19, 21 through 24, 26 through 30, 32 through 40, and 42 through 44.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the State of Wisconsin as of and for the year ended June 30, 1998, and have issued our report thereon dated December 18, 1998. Our audit was performed for the purpose of forming an opinion on

the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements.

As described in Note 1 to the Schedule of Expenditures of Federal Awards, the schedule was prepared from agency records maintained on the basis of accounting prescribed by Wisconsin Statutes, which is a comprehensive basis of accounting other than generally accepted accounting principles, and from federal reports submitted by the agencies to the federal government.

As discussed in Note 2 to the Schedule of Expenditures of Federal Awards, University of Wisconsin campus staff classified nonfinancial aid grants as part of the major research and development cluster or as other than research and development grants. Most grant documents from the federal government and other subgrantor organizations do not clearly identify whether these grants are part of the research and development cluster. Our review of the documents for selected grants resulted in some adjustments to the schedule; however, we did not review the documents for all grants to determine the proper classification of grants as research and development. Therefore, the schedule may not present the correct amounts for the major research and development cluster.

As discussed in Note 3 to the Schedule of Expenditures of Federal Awards, many grant documents from the federal government and other subgrantor organizations do not provide a Catalog of Federal Domestic Assistance (CFDA) number to the University of Wisconsin campus or any state agency receiving the funds. For grants that did not clearly state a CFDA number, the schedule includes the grant or a total for several grants, with an indication of "N/A" for not available.

The information in the schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the management of Wisconsin state agencies and of the Wisconsin Legislature's Joint Legislative Audit Committee and federal awarding agencies and pass-through entities. However, this report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited.

LEGISLATIVE AUDIT BUREAU

June 30, 1999 by

Bryan Naab
Audit Director

